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Your Financial Plan

Financial security for the differently abled

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Preethi Srinivasan, Founder of Soulfree, a charitable organisation for the severely disabled, flanked by her mother S. Vijayalakshmi (left) and grandmother S. Padmasani C VENKATACHALAPATHY BUSINESS LINE

Here's how Preethi Srinivasan, paralysed after a spinal cord injury, can manage her investments

Preethi Srinivasan, 35, is paralysed from below the neck since the age of 18 due to a spinal cord injury. She lives with her mother, 63, and grandmother in Tiruvannamalai. They own a house in Chennai and the rental income, along with Preethi's income from writing movie synopses, helps them to meet their expenses currently.

She is active with her work-from-home job, motivational talk assignments and her work for SoulFree, a non-profit she founded to raise awareness on the issues faced by those paralysed from spinal injuries. She is, however, not sure how long she will be able to work. "My health is fragile and I might not be able to work for 10 or 20 years more," she says apprehensively.

Lifetime needs

Preethi needs her mother's assistance for her everyday life. She says that wheelchairs, mobility aids and medical treatments can be extremely expensive. "These are not covered by any insurance; physiotherapy sessions cost ₹500-800. So, I don't get physiotherapy any more," she says. The already high, and increasing medical costs, are frightening, she notes.

She is also concerned about how she will be cared for after her mother's lifetime. "People like me who cannot care for themselves need an institutional set-up around us to provide a safe place to stay. My fear is that if there comes a time when my mother cannot care for me, I don't know what will happen," she worries.

She is, therefore, looking for a long-term financial plan to support her through her lifetime.

Assets

The family's assets include the house in which they stay, fixed deposits of about ₹20 lakh as emergency funds and ₹6 lakh in mutual funds, besides the home on rent. She is not financially literate and had a particularly bad experience with a financial advisor.

"My father handled all the finances and when he died unexpectedly in 2007, we did not know what to do with the funds we had. We invested some in fixed deposits and trusted someone to invest the rest in mutual funds. The advisor never gave any updates, nor switched to a better performing scheme when there were losses," she says with frustration. The money, it turns out, was invested in sectoral funds such as banking and gold — risky options which are unsuitable to the family's situation.

Her mother and Preethi are currently covered by her employer's mediclaim policy. Her mother also has medical insurance for ₹2 lakh from Royal Sundaram.

Short-term plan

Preethi says she may be able to work for the next five years. Also, the rental property in Chennai is in a reasonably good condition and will fetch sufficient rent without much maintenance costs, based on the family's assessment.

Rent escalations, along with moderate salary increase, should help cover the family's expenses over the next five years.

While their experiences with their financial advisor were not exactly pleasant, given the high cost escalations for medical services (typically 10-20 per cent annually), their portfolio needs to generate inflation beating returns to meet long-term expenses.

D Muthukrishnan of Wisewealth Advisors suggests that they park emergency funds of up to ₹10 lakh in fixed deposits and the rest in equity mutual funds. The amount could be split amongst four schemes.

"Franklin India Prima Plus, Birla Sunlife Frontline Equity Fund, L&T Equity Fund and ICICI Prudential Value Discovery Fund may be suitable for a five-year-plus time horizon," he says. He expects the funds to deliver 15-18 per cent annually, over five years.

Long-term plan

The bulk of Preethi's assets are in real estate. Given the softness in the property market and low rental yields, it is advisable to sell the house and invest the proceeds in more liquid financial assets. One advantage is the likely better returns and more liquid funds. The other advantage is that one can avoid the hassles involved in managing a property, notes Muthukrishnan.

Preethi is, however, averse to investing a sizeable sum in mutual funds as she is unsure of how it will be managed. One safe option to consider is investing in long-term bonds like tax-free or highly-rated corporate bonds along with annuities, suggests Jitendra PS Solanki of JS Financial Advisors who specialises in serving families with special needs children.

Taxation should be taken into consideration while planning to generate a regular income from these products.

He suggests a bucket-based approach to investing. First, create a fixed monthly income base through annuity and long-term bonds like tax-free or highly-rated corporate bonds available now.

Solanki notes that LIC used to offer two endowment products giving maturity payouts in the form of annuities — Jeevan Adhaar and Jeevan Vishwas — for the benefit of parents having a child with special needs. Although these products were traditional plans, they offered higher bonus rates compared with traditional plans and would have been beneficial for the child's later years; but these products have been discontinued now.

So, to generate immediate regular income, annuity schemes currently available can be considered, though they do not offer any special rates on payouts to the disabled. LIC, for example, has an annuity scheme called Jeevan Akshay 6 that takes a one-time payment and starts offering annuity without any delay.

Preethi can opt for fixed annuity payments and can also consider those that increase payments over time. It is best to avail the product at a later stage, for instance, when she is not in a position to continue working. "You can receive higher monthly payments by taking the policy when you are older," says Solanki. The trade-off on which scheme to pick can be made at the time of actual purchase based on available schemes.

The second aspect in her planning is to create income that can keep up with inflation. One way to do this is by having two parts in the corpus — one to handle a five-year period and other to build a corpus for later years. The short-medium term pool can be invested in fixed deposits and other short-term mutual funds, such as money market funds (ultra short-term funds and short-term schemes) to help meet shortfalls in expenses. The long-term corpus building fund can be invested in equity mutual funds and long-term debt mutual funds.

Every five years or so, the long-term corpus can be split again into two buckets and this process repeated. Assuming the equity mutual fund investments give 12-14 per cent return on average and bonds yield 7-8 per cent, the ratio of debt to equity can be adjusted keeping in mind the corpus needed to meet expenses. While equity is volatile, a certain level of exposure is needed in this asset class to beat inflation and address the longevity risk.

Other suggestions

One risk here is that there may be major medical expenses that are not considered. In this case, there may be a shortfall and one option to keep in mind, particularly if Preethi's long-term plan is institutional care, would be to sell the home they currently live in.

Also, another option could be creating a trust for managing the savings rather than leaving the onus on Preethi.

The family has to, however, find dependable trustees who are ready to shoulder the responsibilities. Institutional or professional trustees can also be considered here. It is also important that her mother creates a will covering all the assets. This will make the transfer of ownership smooth and avoid delays and hassles for Preethi. For her part, Preethi must also learn the basics of financial management.

Most of the investments only require quarterly or annual review. With nearly all information accessible online, checking how the investment is performing at regular intervals and discussing any concerns with a trusted adviser will help her become comfortable dealing with finance.

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